

Summit for Democracy

S4D Event: **Authoritarian States' Illicit Finance and Kleptocracy: Threats to Democracy, Peace and Security**

Thematic Area: Defending against Authoritarianism

Date: 6 December 2021, 12pm ET

Hosted by: [Terrorism, Transnational Crime and Corruption Center \(TraCCC\)](#), [Anti-Illicit Trade Institute \(TraCCC-AITI\)](#), George Mason University (GMU)

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The Staggering Size of Today's Illicit Economies

The International Monetary Fund (IMF) has estimated that money laundering comprises approximately 2 to 5 percent of the world's gross domestic product (GDP) each year, or between \$1.74 trillion to \$4.35 trillion USD. The amount of illicit funds generated across illicit economies is staggering, and increasingly these funds are being laundered through numerous licit financial centers.

Illicit economies are the lifeblood of today's bad actors, enabling autocrats to loot their countries, criminal organizations to co-opt states and export violence, and terrorist groups to finance their attacks against our societies.

Illicit economies are pervasive threats that undermine democracy, corrode the rule of law, fuel impunity, imperil effective implementation of national sustainability and economic development strategies, contribute to human rights abuses, and enflame violent conflicts.

Across today's global threat environment, criminals and bad actors exploit natural disasters, human misery, and market shocks for illicit enrichment.

These illicit threats include the smuggling and trafficking of narcotics, opioids, weapons, humans, counterfeit and pirated goods; illegal tobacco and alcohol products; illegally harvested timber, wildlife and fish; pillaged oil, diamonds, gold, natural resources and precious minerals; and other contraband commodities.

Dark money and illicit finance, particularly related to authoritarian states, pose direct threats to democracies, societal stability, market security, and the global financial system. This is especially true when autocrats engage in illicit activities with criminal oligarchies, state-sponsored criminal groups, complicit enablers, and other threat networks to launder

dirty money to finance malign actions that destabilize the national interests of Western powers.

China, Post-Soviet Authoritarian Regimes and other Dictatorships

China is the factory to the world. It is a producer of both large amounts of licit commodities as well as illicit goods — including counterfeits, fentanyl, and precursor chemicals for illicit narcotics. To help drive its economic growth, it is a major importer of illicitly harvested timber, Illegal, Unreported, and Unregulated (IUU) fish, rare-earth minerals and many other illegally obtained commodities. From such illegal trade, China generates massive revenues through its participation in licit and illicit global economies, across e-commerce marketplaces and the digital world.

Although the numbers are not precise and, in some cases, do not exist, the bottom line is that a strong argument can be made that China is responsible for introducing and laundering approximately \$1.5 – \$2 trillion USD of illicit funds into the world's economy every year as measured by predicate offenses. Another way of looking at the magnitude of the problem is that approximately one-half of the total amount of money laundered worldwide is of Chinese origin. China also provides money laundering services to Mexican drug cartels and other criminal organizations and has developed its own laundering methodologies.

China's Belt and Road Initiative (BRI) is an ambitious multi-trillion dollar economic development assistance program that is funding massive projects across the developing world including roads, ports, pipelines, electrical power grids, mining, telecommunications, railroads, and other infrastructure. The licit trade channels and supply chains that the BRI is constructing are also creating illicit pathways exploited by autocrats to traffick in fentanyl and opioids as well as counterfeits, weapons, and humans, furthering market penetration by criminals, and contributing to the expansion of illicit economies globally.

The BRI global footprint tracks some of the biggest illicit trade routes known for corruption, money laundering, and the trafficking of narcotics, weapons, counterfeits, humans, illegally-mined natural resources, and other contraband. In Africa, Southeast Asia, and other parts of the world, China's BRI not only saddles recipient countries with long-term loans but also serves as an extension of its foreign policy goals by destabilizing other countries and diminishing Western influence. These often loans serve as debt-traps that impoverish communities, as kleptocrats line their pockets and pad their offshore accounts while enabling China to control these countries' natural resources and critical strategic infrastructure. Through its leverage gained by BRI loans, China's investments have increased its influence and control of key adjacent ports in Latin America and the Caribbean.

Just as international trade in the past helped China develop a sophisticated system of underground banking, China along with Russia is now a world leader in "new payment"

systems of transferring money and value, including but not confined to cryptocurrencies. Many observers believe Chinese and Post-Soviet Russian involvement in illicit trade is tolerated to enrich not only corrupt and criminal actors in these states, but also to help achieve state strategic goals that include harming the United States and other democracies.

While many post-Soviet authoritarian states are not major producers of goods, their involvement with natural resource-related trade-based money laundering (TBML) continues to present severe security challenges.

Both China and Russia continue to use cyberspace not only to steal trade secrets and conduct cyberattacks on critical infrastructure in the United States and other Western governments, but also to further their malign influence and disinformation campaigns that weaken democratic institutions, the rule of law, and destabilize the international order.

In Russia, organized criminals have worked hand-in-glove with President Vladimir Putin's authoritarian regime execute numerous cross-border illicit activities in conflict and non-conflict states, and in recent years, through cybercrime across the digital world. Through their political influence and as a powerful enabler, autocrats in post-Soviet states have expanded their illicit wealth in both licit and illicit worlds. Corporate raiding remains a challenge across Russia's elite business community. Cyberattacks and cybercrime and trafficking activities are also profitable in these political-criminal circles.

In Ukraine, the criminally-driven oligarchs and local Russian criminals helped President Putin foment insecurity, invade, and control Crimea and other parts of the country. The meaning of the rule of law and the definition law and order—assumed to have a common, universal understanding in the West—mean entirely different things in Russia and other autocracies, where the rules and law enforcement are meticulously designed to favor the powerful, business elite, and those who pay to play in the underworld of global financial markets.

Iran also uses Iranian-backed criminal organizations and the terrorist group Hezbollah, to not only generate income but also to launder assets to evade U.N. sanctions and undermine Western democracies. It has been widely reported that Iran-backed Hezbollah engages in the trafficking of drugs, counterfeits, and cigarettes in the Tri-Border Area of South America. The dirty money derived from these illicit activities, helps Iran and Hezbollah to finance numerous operations to hurt the United States, Israel, and other Western powers. In Venezuela, Iran has encouraged Hezbollah to help the Maduro regime finance its authoritarian rule through trafficking in drugs, oil, gold, and other contraband across illicit markets.

The misuse of Interpol and red notices to favor elites is increasingly a concern within law enforcement communities, as well as lawfare by authoritarian states to exploit and

manipulate international bodies and norms to evade sanctions and avoid international scrutiny, condemnation, and accountability.

In Guatemala and other kleptocracies in Central America, ruthless autocrats continue to destroy their citizens' aspirations for a better life by plundering national assets and natural resources. These antidemocratic kleptocracies are fueling greater crime, violence, insecurity, and migration.

Central American dictators and corrupt Central American business elites hide their illicit wealth in offshore havens or launder them as reinvestments in real estate and other formal sectors in the United States and other developed economies that enable them to live a life of luxury and security. Exploiting such political mismanagement and market chaos, Chinese, Russian, Mexican, and other transnational criminal syndicates are increasing their illicit operations and criminalizing economies across Central America. Similar to the corruptive influence of other presidents in some Central American governments, Guatemalan President Alejandro Giammattei has undermined anticorruption efforts in Guatemala, and has manipulated the criminal justice sector with impunity for his own benefit and for the protection of his cronies.

Similarly, in Africa, authoritarian leaders and kleptocrats live in a parallel universe in contrast to the harsh living conditions of their own peoples. Across the Sahel, North Africa, and the Middle East, corrupt ruling elites have financed a corridor of illicit trafficking that helped fuel the rise of violent extremist groups and financed their terror campaigns, training camps, and safe havens. Illicit trade has enabled criminal and terrorist networks to exploit insecurity and crime to finance their trafficking and smuggling operations, and expand control over a large swath of territories. As in other parts of the world, corruption is a force multiplier that destabilizes communities, threatening the security of all nations in the region and beyond. It also undercuts economic development and the region's ability to absorb international assistance and improve stability and security.

In Asia, strongmen subvert freedoms and the will of their people. For example, North Korea's dictatorship remains one of the most dangerous, lasting autocratic regimes in the post-World War II era. As a rogue and ruthless "Supreme Leader", Kim Jong-un has extended his family's control of the country by financing their survival through a combination of brutality, nuclear weapons proliferation and trafficking, and through a criminal network of state-sponsored illicit trade including drug trafficking, counterfeiting of currency and illicit goods, money laundering, and modern slavery and human trafficking. Kim Jong-un's illicit finance maintains regular governmental operations and sustains the regime's weapons programs in contravention of U.N. sanctions.

The former Soviet republics in Central Asia have long been controlled by kleptocrats whose primary motivation is to line their pockets through plundered assets, increase their own power, and repress the freedom and liberties of their people. During the time of COVID-19,

authoritarian leaders in Central Asia have weaponized the pandemic through misinformation, censorship, and targeted coercion of dissenters. Authoritarianism has also made gains in Southeast Asia.

Consequences to Societies

When corrupt ruling elites conspire with criminals, they manipulate weak governance structures to undercut development, finance chaos, inflame violence, disrupt stability, and expand inequality. In recent years, we have seen how throughout the world autocrats have deliberately eroded judicial independence and quashed anticorruption investigations and the rule of law so that democracy cannot take hold.

Increasingly, autocrats and kleptocrats borrow from each other's practices to sustain their power and illicit behaviors, provide an alternative governance model, and destabilize Western norms and values. These are existential threats to democracies.

At the crossroads of corruption and organized crime are the professional enablers and facilitators that help to finance today's illicit economies. Through anonymous shell companies and licit and illicit money laundering vehicles, criminals, kleptocrats, and other bad actors are able to reinvest their dirty money in the United States and other markets to purchase and enjoy luxury real estate, yachts, jets, sportscars, and other opulent goods and services. Such unscrupulous and unethical enablers and gatekeepers include accountants, lawyers, art dealers, investment advisors, real estate professionals trust or company service providers, leaders of luxury vehicles, money service businesses, and other similar professionals.

Recently, through the release of the Pandora Papers (and earlier Panama Papers), we have seen clearly how entrenched corrupt officials, power elites, and criminals in Central America and globally, can easily launder their dirty money with the help of professional enablers. This includes the use of anonymous shell companies, trade-based money laundering (TBML), free trade zones, and trusts to reinvest dirty money into real estate and other sectors of the legitimate economy, thereby laundering these illicit funds while simultaneously diversifying their ill-gotten wealth.

It is a reality that many reform champions, ethical judges, investigative journalists, and corruption fighters who have challenged the growing authoritarianism and kleptocracy in Central America have been targeted and silenced. Some have been imprisoned and murdered including many judges, while others are now in exile.

Impacts to National Security and Democracy

Participants in the two sessions highlighted how the United States and other champions of democracy must not turn a blind eye to the wanton disregard by authoritarian states and autocrats of democratic values, human rights, and the rule of law. A community for

democracy must cooperate to surface bad actors involved in corruption, organized crime, and malign influence.

Efforts must include cross-border law enforcement cooperation and tracking the dirty monies that are sustaining authoritarian states' power and criminal behaviors.

In a time of halting economic recovery from the Covid-19 pandemic, autocracies and kleptocracies continue to divert revenue from their national coffers and pressure businesses and other legitimate market drivers to provide bribes to secure contracts, or to enable their complicity in various crimes. Authoritarian states have also used corrupt practices and illicit finance to gain control of critical infrastructure and natural resources in the developing world as China has done since the launch of its Belt and Road Initiative.

Such high-level corruption and criminality impair the ability of communities to make the needed investments necessary to stimulate equitable, long-lasting economic growth. Revenue that could be used to build roads to facilitate commerce, hospitals to fight disease, homes to raise families, or schools to educate future leaders, is instead lost to criminal greed, waste, and corruption, with impacts that will span generations.

But this goes beyond just economic harm. Authoritarians incur significant negative social costs, and in some cases, foment market instability, corrupt human capital, and endanger national efforts to implement sustainable development goals.

TraCCC-AITI panelists highlighted the need to harness new solutions to make our world a better place through improved governance, public integrity, and a commitment to uphold universal principles and international standards to counter corruption, organized crime, money laundering, threat finance, and foreign malign influence.

Democratic values can be a force multiplier to inspire and transform societies, can act as a catalyst for peace and security, and can help to reinforce and advance the U.N. Sustainable Development Goals (SDGs).

Impacts on the Sustainable Development Goals (SDGs)

When authoritarian states fuel illicit economies and finance corruption, criminality, and insecurity around the world, they also impede the potential of societies and communities committed to democracy, social impact, and sustainable development including some, if not all, of the 17 Sustainable Development Goals:

- **Goal 1:** No Poverty (generate funds to alleviate poverty)
- **Goal 2:** Zero Hunger (through nutrition; initiatives on food security)
- **Goal 3:** Good Health/Well-Being (free spirit and physical activity; reduce disease)
- **Goal 4:** Quality Education (equal rights; tolerance, diversity; respect; life-long skills)
- **Goal 5:** Gender Equality (fight discrimination/gender violence; empowerment)
- **Goal 6:** Clean Water and Sanitation (hygiene; conservation; plastics)

- **Goal 7**: Affordable and Clean Energy (energy efficiency/renewables; green facilities)
- **Goal 8**: Decent Work and Economic Growth (jobs; fair labor/child standards)
- **Goal 9**: Industry, Innovation, Infrastructure (economic growth; jobs; modernization)
- **Goal 10**: Reduce Inequities (respect for diversity; gender empowerment; human rights)
- **Goal 11**: Sustainable Cities and Communities (green, economic development; safe spaces)
- **Goal 12**: Responsible Consumption and Production (global ecological footprint)
- **Goal 13**: Climate Change (global educational awareness of climate change)
- **Goal 14**: Life Below Water (harms on oceans; endangered marine wildlife; plastics/pollution)
- **Goal 15**: Life on Land (conservation; vital ecosystems and habitats; cultural heritage)
- **Goal 16**: Peace and Security (conflict prevention/mitigation; human rights; anti-bribery, anti-corruption; counter fraud, organized crime, terrorism; rule of law; democratic values; enduring peace by bringing accountability to authoritarian states)
- **Goal 17**: Revitalize the global partnership for sustainable development.

RECOMMENDATIONS

To make progress against the rise of authoritarianism that harms the community of democracies' values, free markets, rule-of-law institutions, and the promotion of human rights, we must strategically employ more integrated policies and coordinate cross border actions to counter corruption, organized crime, money laundering, illicit financial flows, and other converging criminal threats through collective action and public-private partnerships globally.

The United States and S4D communities must elevate enhanced law enforcement efforts across borders to protect democracies from the harm, violence, and exploitation of today's ruthless authoritarian states and their enablers. This includes disrupting their corruptive influence and economic wherewithal in strategic markets and across the digital world that are undermining legitimate commerce, rules-based systems, and our collective national interests. Through a whole of society approach, we can sever their access to global banking systems, dismantle sanctuaries of impunity, and target financial safe havens to confiscate their illicit wealth and stolen assets.

With a resolute commitment and the leadership of communities dedicated to advance sustainable democracy, we can all endeavor to preserve integrity across sectors, safeguard positive values and serve as stewards for the common good and civil freedoms that benefit all citizens of the world and future generations.

Fight Kleptocracy and Corruption

- Implement more robust enforcement actions that target authoritarian states' corruptive influence as part of the U.S. Strategy on Countering Corruption. (Released 6 December 2021)
- Leverage the Pandora Papers and other investigative journalists' reporting to unearth the illicit wealth of autocrats, kleptocrats, and other senior politically-exposed persons and confiscate their assets.
- Counter arguments by authoritarian states that the SDGs undermine democracy; the reality is that by plundering state assets and through violent repression, they themselves are blocking inclusive, sustainable development that promotes economic progress, prosperity, poverty reduction, the rule of law, and the ushering of transparency and innovation for greater openness, voice and accountability, human rights, social impact, and the pursuit of peace, equality, and justice.
- It is necessary to link acts of corruption as a violation of human rights so that they can be prosecuted and punished at the regional and international level. Strengthen anti-corruption anti-money laundering efforts in Central America including through the creation of a regional Anti-Corruption Commission, and a regional illicit trafficking intelligence fusion center. Also, the creation of an International Anti-Corruption Court should be considered.

Target Authoritarian States' Illicit Wealth and Money Laundering

- Building on the recent enactment of the Corporate Transparency Act to end the abuse of anonymous shell companies and require more transparency information related to beneficial ownership, encourage Congress to pass anti-kleptocracy bills in the National Defense Authorization Act (NDAA) for Fiscal Year 2022, as well as legislation to expand the Bank Secrecy Act such as the “Establishing New Authorities for Businesses Laundering and Enabling Risks to Security Act” (ENABLERS Act) which would impose stronger due diligence requirements on such professional enablers and facilitators that help dictators, organized criminals, and other threat networks to harm U.S. national security interests.
- Develop a national security strategy to prioritize the abuse of licit trade mechanisms and criminal breaches in supply chains and to combat trade-based money laundering (TBML). The strategy should include an inter-agency task force and partnerships with the private sector; a joint interagency task force to focus on illicit trade transactions and related TBML and Service-based Money Laundering (SBML).
- Expand the Trade Transparency Units (TTUs) program to analyze commercial trade transactions, shipping invoices and bills of lading to find anomalies; promote information-sharing that leads to greater actionable intelligence across borders and enhanced transparency in Free Trade Zones.
- Build on policies denying safe haven to, and tracking illicit financial flows of, kleptocrats and designated criminals and terrorists, including banning entry into U.S. ports of maritime ships that fly flags of convenience (FoC) that do not provide beneficial ownership information to CPB prior to entering U.S. waters. These ships contravene the spirit of the Corporate Transparency Act and Anti-Money Laundering Act of 2020 and may be involved in facilitating illicit activities, trafficking counterfeits, smuggling contraband, bribery, and evading sanctions.

Counter Illicit Trade and the Weaponizing of Organized Crime

- Elevate the fight against illicit trade and illicit economies as a core national security interest. Examine how authoritarian states' weaponize criminality to finance insecurity and disinformation campaigns, and to destabilize the U.S. national interests, trans-Atlantic and trans-Pacific alliances, American markets, and the health and safety of communities of democracy.
- Invest in negotiating trade agreements including the Trans-Pacific Partnership (TPP), the Dominican Republic-Central America Free Trade Agreement (CAFTA), and other regional and bilateral trading arrangements that condition access to U.S. markets to fair play, anti-corruption and the rule of law, labor and environmental provisions, democracy promotion. These agreements serve as a counter measure

against China's BRI and the foreign and trade policies of authoritarian states designed to weaken U.S. influence and free markets and to provide greater opportunities for organized crime to thrive and control ports and other critical infrastructure. A commitment to international financial norms and debt transparency can also help communities towards economic recovery, fiscal responsibility, and sustainable economic development.

- Support public-private partnerships that leverage information-sharing, AI, and federated machine learning and other innovative technologies to surface bad actors and illuminate illicit networks in the shadow economy. Enable actionable intelligence sharing across law enforcement communities for judicial action against illicit economies and crime convergence finance. Develop full spectrum global supply chain solutions to combat illicit pathways and illicit financial flows.
- The U.S. Intelligence Community should be tasked to develop all source intelligence reporting requirements on subjects relating to illicit trade, illicit finance, corruption and internal and external influence peddling by kleptocrats and authoritarian states.
- U.S. federal law enforcement, particularly the Federal Bureau of Investigation (FBI) and the Department of Homeland Security's Homeland Security Investigations (DHS/HSI), as part of their annual budgeting process, should be charged to initiate and investigate impactful investigations on illicit trade, illicit finance, and corruption either unilaterally and/or with the appropriate international law enforcement community. Results as measured by actual investigations, prosecutions, and convictions should be published annually and will be used by the Administration and Congress in weighing annual budgetary requests.

Public-Private Partnerships and Whole of Society Approaches

- Parliaments can be an important role, not just in promoting legislation, but also in ensuring proper oversight and empowering other oversight and judicial bodies; a network of parliaments across borders working more together internationally through parliamentary diplomacy or other means, can have a positive impact.
- Civil society leadership is indispensable in exposing kleptocratic networks harming communities, engaging in strategic litigation that illuminate criminality, and by leveraging voice and accountability measures that bring greater knowledge, transparency, and openness to governance, regulatory, and enforcement processes.
- Public-private partnerships are a force multiplier that can help democracies to mobilize greater energies towards collective action to combat cross-border illicit finance through information-sharing, actionable intelligence and coordinated law enforcement against bad actors, threat networks, and their complicit enablers, and to ensure a sustainable peace globally.

Annex 1.

**Authoritarian States' Illicit Finance and Kleptocracy:
Threats to Democracy, Peace and Security**

**TraCCC-AITI PROGRAM (S4D Event)
(6 December 2021)**

<https://summit4democracy.org/>
<https://gmu.zoom.us/j/92764508897>

Short overview:

The one-hour long webinar consisted of two sessions aimed at discussing possible ideas, solutions, and recommended actions to S4D and the United States and S4D communities.

Session one: *The Corruptive Influence of Authoritarian States: A Kleptocracy Security Threat to Democracy and Human Rights.*

Distinguished Panelists:

- Dr. Louise I. Shelley, director of TraCCC
- Claudia Escobar, former Judge of the Court of Appeals of Guatemala and a respected legal scholar
- Corina Rebegea, National Democratic Institute (NDI).

The first session was moderated by David M. Luna, Co-Director, TraCCC-AITI.

Session two: *Illicit Financing of Crime, Violence, and Insecurity in Authoritarian States* which featured two internationally-recognized experts and instructors in the TraCCC-AITI ongoing program on authoritarianism:

- John Cassara, TraCCC-AITI AML/TBML Faculty Instructor
- Lakshmi Kumar, Global Financial Integrity (GFI)

Session two was moderated by Dr. Layla Hashemi, TraCCC.

Recording of the event:

<https://www.dropbox.com/s/jyko9gim3c0lmsl/Authoritarian%20States%E2%80%99%20Illicit%20Finance%20and%20Kleptocracy%20Recording.mp4?dl=0>